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SUBJECT: DOMINICAN ELECTRICITY SECTOR - DEMANDING
RENEGOTIATION IS EASIER THAN REFORMING

¶1. (SBU) Summary. Since September 2006, the Dominican Republic has held four conferences on electricity sector reforms. The result is that the government wants to renegotiate the contracts but the generators do not; the private sector wants the government to criminalize the act of stealing electricity, to improve collections, and to continue to privatize the rest of the state-owned electricity sector. Although a law to criminalize the theft of electricity is in Congress and should pass, the government declines to contemplate further reform of its state-owned electricity entities. The Fernandez administration has no internal consensus and the President appears essentially to have abdicated leadership on this issue. End Summary.

¶2. (SBU) Since September 2006, the Dominican Republic has held four conferences to discuss approaches to electricity sector reform. The first of these conferences was a government-only closed-door session followed by a government-private sector conference. The government-only conference focused only on the proposed initiative of renegotiating its contracts with the private generation companies. The conference reportedly revealed a sharp discord between the vice-chair of the state-owned electric company, Rhadames Segura, and the President's Technical Secretary, Temistocles Montas. Montas wants to further the

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privatization program, while the "statist" Segura wants to renegotiate as well as assume more state control over the electricity sector.

¶3. (SBU) The government-private sector conference that followed focused only on the government's desire to renegotiate the contracts. In what appeared to be an ultimatum, Segura demanded the private sector provide a response by November 8 to the government's request to renegotiate the contracts. Most responses favored developing a working group to analyze the issue.

¶4. (SBU) The third conference that followed was organized at the President's think-tank FUNGLODE on November 30th by the Economist Group, at the request of the government. The conference focused on electricity reform and included speakers from the government and the private sector. During one of the panels, Segura of the state electric company, CDEEE, and Antonio Isa Conde, presidential advisor on industry and head of the Dominican Competitiveness Board, engaged in a heated debate (similar to the Montas-Segura episode) about whether to privatize the sector. One consideration was mismanagement and corruption within the state electric companies. As usual, no consensus came out of the conference. Events have given the impression that for the government, in matters electrical Radhames Segura is dominating. He is a high ranking member of Fernandez' party, the PLD, and is close to Danilo Medina, the former presidential chief of staff (Medina intends to run against Fernandez for the PLD presidential nomination). Reading between the lines, it appears plausible that Fernandez does

not want to upset his fellow PLD members by reforming the sector. According to industry experts, the state-owned electricity sector has a one billion dollar cash flow that provides many jobs to party members.

15. (U) The fourth conference, hosted by the private sector, discussed the contract situation (power purchasing agreements or PPAs) as well as technologies to improve collections of electricity bills. The panelists said that the pricing mechanism of the contracts between the government and private sector is par for the course throughout Latin America, so long as the generation companies do not use diesel. The presentation about a new technology for better monitoring of electricity usage was offered by the SAAB Company. Within the last year, the company has installed this technology in South Africa and has decreased distribution losses in a city of 80,000 from 50% to 3% in only three months.

Will the Government finish the capitalization (privatization) program?

16. (SBU) The president of Smith-Enron (a 180MW generator now owned by Ashmore Energy) told Econoff that at the sector's recent meeting with President Fernandez, the President said that the capitalization program, started under his first administration, is now definitely on hold until presidential elections are over (in mid-2008). This program, strongly endorsed by the President's Technical Secretary-Temistocles Montas, was designed to privatize the rest of the state-owned electric companies (e.g., the distribution centers, but also the transmission and hydroelectric companies). The President added that the current environment is not right to start privatizing the sector (translation: it's too political and he wants to be re-elected. Many in the PLD believe that it lost the elections in 2000 because the capitalization program began shortly before the elections and coincidentally, oil

prices rose at that time, pushing up electricity prices. The general public blamed the increase in electricity prices on the PLD and not the market.)

Renegotiation or Bust

17. (SBU) Segura's comments as carried in a December 7 article by the Latin Press, suggest that the Dominican government is pushing hard to renegotiate the generation contracts: "In views of the current situation, Segura announced the intention to terminate the contracts signed by the power distributing plants with the generating ones, including Palamara-La Vega, Dominican Powers Partners, and Aes-Andres. He also accused the government of former President Hipolito Mejia (2000-2004) of signing those agreements for a generating capacity of 3,340 megabytes, and extending its validity until 2016, with an inflated value." This, despite the fact that industry analysts consistently have said that renegotiating the contracts will not solve the overarching problems, which are principally distribution losses due to a lack of collections and mass theft.

18. (SBU) Some private sector owners would come to the renegotiating table if the government were serious about getting its house in order. The problem is that at the present time the government doesn't want to offer anything up for a renegotiation deal. The sector faces 40 percent distribution losses, 90 percent of which are non-technical in nature -- that is, theft, refusals to pay and corruption.

19. (SBU) If the government forces a renegotiation, by the terms of their contracts the private sector operators will be able to bring the government to international arbitration. If this happens, the government most likely will lose.

COMMENT

10. (SBU) It appears that Fernandez has lost his way and his will regarding electricity sector reforms. When

Fernandez took office in 2004, he announced that his top priority was to fix the electricity sector. We have passed the midway mark of his term and the only two areas where we have seen movement is a law to criminalize the theft of electricity and a push to renegotiate their financial contracts with the private sector generation companies. Complicating the reform process is Segura's goal to become more powerful; hence his recent proposal to the President to have CDEEE in charge of all state-owned electric entities as well as his desire to be compensated for this. The draft bill would provide that the executive members of CDEEE be paid at the same rates as the executives in the private sector -- farewell to the concept of public service. We anticipate this proposal to die in place.

¶11. (SBU) The government's perpetual theme is that some of the contracts it signed with power companies were not negotiated well by government officials. However, at the time of these contracts, the price of oil was about USD 24 a barrel, the country was looking for hundreds of millions of dollars worth of foreign direct investment, and the country's credit rating was B. To resolve that flaw, the government needs to negotiate a renegotiation instead of demand a renegotiation.

¶12. (U) This report and extensive other material can be consulted on our SIPRNET site,
<http://www.state.sgov.gov/p/wha/santodomingo/>
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